“Rise and Shine: Improving Retirement and Enhancing Savings”
Senate Committee on Health, Education, Labor, & Pensions
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Chair Murray, Ranking Member Burr, and members of the committee. Thank you for holding this important hearing today on one of the most critical wealth building systems in our country: our retirement savings system.

I am Ida Rademacher, Vice President at the Aspen Institute. I am also the Executive Director of the Financial Security Program (FSP).[i] Our mission at the Financial Security Program is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. Since our inception, retirement savings has been a pillar of our work on building an inclusive economy with reduced wealth inequality and shared prosperity.

Through our convenings of leaders on retirement savings, we have found that there is convergence on the importance of the retirement savings system for building inclusive wealth. Specifically, we have hosted the Aspen Leadership Forum on Retirement Savings for the past six years, a community that features some of the largest asset managers and recordkeepers in the financial sector, leading advocates from consumers, academic experts in financial security, and even some of your esteemed colleagues in the Senate.[1] While they have different perspectives on solutions, they all agree that the retirement savings system is a critical pillar of an inclusive financial system that facilitates financial security and the wealth building potential of households in America.

Unfortunately, despite the power of the retirement savings system for those who are able to use it, there is also broad agreement that it has not yet lived up to its potential for everyone. Wide gaps exist in the access to effective retirement savings tools for households, in particular households of color, women, and low-income households. In addition, the structures of the system’s infrastructure have not kept up with the current financial needs of households or even modern technology.

[1] For more information, see https://www.aspenretirementforum.org/.

In my testimony today, I will briefly highlight the importance of retirement savings as a generator of wealth, and what that means for financial security at the household level. Second, I will review the gaps that we see in the system and potential solutions available to you and your colleagues to address those gaps, in particular focusing on access, portability, and cash flow in retirement (otherwise known as lifetime income). Finally, I want to highlight the potential you all have right now to boost emergency savings through the retirement system by supporting innovative savings options for employers and households in a way that safeguards retirement funds, helps households weather unexpected emergencies, and can set low- and moderate-income households up to succeed in building wealth in the long term.

The Retirement Savings System is a Pillar of the Future of Wealth

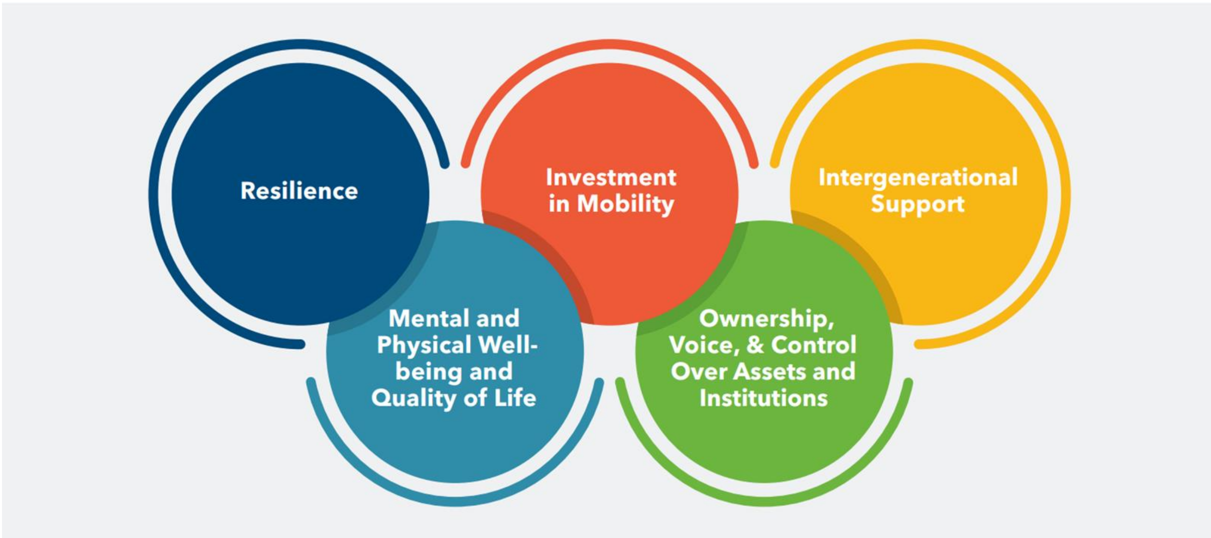
Retirement savings are one of the largest sources of household wealth in the United States, second only to home equity in its overall asset value on an average American household balance sheet.[ii] This wealth building potential is important not just for the rich - everyone needs wealth to thrive. Not having wealth leaves people less able to invest in economic mobility; support family, community, and future generations; care for their health and well-being; and feel a sense of control and dignity in life. For a large share of people and families in America, wealth is out of reach – and without it, financial security is nearly impossible.

Everyone in America deserves to be able to build wealth - that is implicit in the Declaration of Independence's foundational claim, that all people have unalienable rights to life, liberty, and the pursuit of happiness. That has not, however, been most people's experience throughout United States history, which is filled with peoples' struggles to have equal access to both the financial stability that is a prerequisite for wealth building and the financial tools needed to turn resources into durable wealth.

In the United States, having some amount of personal wealth is necessary to thrive, due in part to the "great risk shift" of the past several decades (e.g., the replacement of pensions with 401(k)s), the financialization of private industries and social institutions alike, and public systems' reliance on private markets to deliver household supports and services. In this context, wealth is often a prerequisite for people to maintain stability in their lives when they inevitably face challenges, to experience upward economic mobility, and maintain physical and mental health. This makes wealth building a high-stakes endeavor for individuals and families, impacting far more than just their finances.

My research team has identified five primary functions of wealth.[iii]

Figure 1. The Five Functions of Wealth



1. **Wealth provides resilience.** It protects people's ability to meet their needs and keep working toward their goals in the face of volatility of income and expenses. It also allows individuals to provide support and resilience to others in their social networks and communities.
2. **Wealth enables investments in mobility.** It allows people to make investments that can boost their income, stabilize or reduce their costs of living, and grow their wealth. People use their wealth to build more wealth over time by investing in appreciating assets (primarily homes and stocks). As people accumulate wealth, they invest in themselves and their families via higher education, entrepreneurship, and homeownership. Those with significant amounts also boost their household's current, regular cash flow through assets that generate rental income or dividend payments—this virtuous cycle creates more resources to invest and benefit from compound interest.
3. **Wealth enables intergenerational support.** Having wealth allows people to endow the next generation with resilience, mobility, and opportunity. People share their wealth with their families and others during their lifetimes through gifting money or assets such as vehicles or businesses, paying for others' higher education, or providing seed money for others' businesses. Those who have significant wealth can also pass it down through inheritances of money and other assets. These transfers provide recipients with a built-in safety net that they can draw on in times of need and build upon for future generations.
4. **Wealth supports health and quality of life.** Having wealth provides breathing room and flexibility that are beneficial to people's well-being. Financial insecurity and debt are associated with mental health challenges such as anxiety and depression, and physical health conditions including weight fluctuations, higher blood pressure, and increased risk of stroke.[iv] In that sense, wealth can serve as preventative care. Wealth can also bolster the health and well-being of

people living with health conditions or disabilities that require regular treatment. Wealth contributes to quality of life by providing options and reducing the need to make unwanted tradeoffs. Non-labor income generated by assets such as real estate or financial investments can allow people to work fewer hours to make ends meet.

5. **Wealth provides a sense of ownership, voice, and control.** Asset ownership affords people decision-making power. At the household level, that could be the power to choose where to live based on proximity to schools and jobs, instead of solely on cost of living. Wealth can also affect people's social and political engagement, thus benefiting entire communities. On the other hand, financial insecurity depresses political participation and civic engagement.[v]

It is for these reasons that a thriving and inclusive retirement savings system is necessary for the financial security of all in America. Too often conversations about retirement savings carry an implicit or explicit assumption that low- or moderate-income Americans don't need savings because Social Security replaces much of their income. Given the critical nature of wealth to personal and community resilience, quality of life, and the deep desire of households across the income spectrum to leave something behind for future generations, that claim is clearly false. It is essential that we build a retirement savings system that works for everyone.

Unfortunately, while many are able to effectively invest in retirement savings, far too many others do not have access to this powerful system. Account ownership and balances are distributed unevenly across socioeconomic groups, and particularly across racial groups. For everyone to have a secure retirement, everyone needs access to retirement savings accounts with high-quality features, regardless of where they work or how much they are paid.

Persistent Gaps Exist in the Retirement Savings System, but Solutions Exist

Far Too Many Lack Access to Workplace Retirement Savings

At each of the previous gatherings of the Aspen Leadership Forum on Retirement Savings, a dominant theme has been how to fully extend access to the approximately 40 million workers in America who currently lack access to a workplace retirement savings plan. In addition to leaving millions of workers without sufficient resources upon retirement, these gaps in retirement plan access contribute to growing wealth inequality in the United States.

In 1989, the poorest half of the population owned three percent of the nation's wealth; in 2013, it was just one percent. Over that period, wealth accumulation has overwhelmingly shifted to older, college-educated, white families.[vi] In 2019, the net worth of a typical white household was nearly eight times greater than that of a Black household.[vii]

Black and Hispanic/Latino workers' disproportionate lack of access to workplace retirement savings plans has deepened racial wealth inequality. In 2016 the typical Black household had 46 percent of the retirement wealth of the typical white household, and the typical Hispanic/Latino household had 49 percent of the retirement wealth of a white household.[viii] The gap in access to workplace retirement savings is driven by the fact that many people are either employed by small businesses that do not offer savings plans, make their living as contingent or contract workers who do not have access to benefits, are part time employees, or are independent contractors or otherwise self-employed and thus disconnected from a primary employer.

There is a generational wealth divide as well. Americans born in the 1960s have accumulated 11 percent less wealth than earlier generations at a similar age, while those born in the 1970s have an average of 18 percent less. Those born in the 1980s are 34 percent less wealthy than expected.[ix]

Women also face retirement savings hurdles higher than those of men. Women are less wealthy overall than men, owning 32 cents on every dollar owned by men.[x] They are also much much more likely than men to have part-time jobs, which are about half as likely to offer a retirement savings benefit.[xi] Consequently, it is unsurprising that the pandemic hit female savers hard. During the pandemic, just 41 percent of women said they would be able to continue saving for their retirement compared to 58 percent of men.[xii]

There are promising, bipartisan solutions for policymakers to take action to begin to close these gaps. Further expanding coverage to additional part-time workers is one such solution that has received bipartisan support. Increasing that coverage would help boost women's access to retirement savings in particular, who are more than twice as likely as men to voluntarily work in part-time jobs.[xiii]

Increasing coverage must be a priority—and that coverage must include access to automatic enrollment. When workers have access to payroll deduction-based retirement programs, they are 15 times more likely to save.[xiv] Offer automatic enrollment and they're 18 times more likely.[xv] Allowing for automatic re-enrollment into retirement savings plans is a promising policy that would build on the success of automatic enrollment to ensure we can provide multiple opportunities for workers to jump start their retirement savings.

Expanding the market for Multiple Employer Plans (MEPs) or Pooled Employer Plans (PEPs) to include more workers, such as those at nonprofit organizations, could also move the needle on worker access to workplace retirement savings plans. While MEPs and PEPs are still in early development in the market, there is potential for them to lower costs for smaller employers to offer retirement benefits by providing economies of scale closer to those achieved by larger businesses. Currently, 58 percent of businesses with fewer than 100 employees offer any sort of retirement benefit, compared to 92 percent of businesses with 500 workers or more.[xvi] Any movement towards closing that gap would be an important step towards closing the access gap.

These are incremental steps toward closing the access gap for retirement savings. More change will be needed for us to truly close those gaps, but I hope policies like these can lay a bipartisan foundation for future improvements to achieve true inclusion in the retirement savings system.

Lack of Portability of Retirement Savings Leaves the System in the 20th Century

According to the Bureau of Labor Statistics, the average worker changes jobs 12 times over the course of a career and those with access to 401(k) plans are faced each time with rolling over or cashing out their savings.[xvii] Roughly five million workers per year have less than $5,000 in their employee sponsored plans when they leave a job, and absent clear guidelines for maintaining those programs, some 75 percent choose to take the money out of the plan, usually triggering a taxable event and incurring a penalty if the worker is younger than 59½.[xviii] All kinds of leakage—including at job change, hardship withdrawals, and loans—leads to retirement savings that are 25 percent lower on average by the time a worker reaches age 60.[xix] The lost savings from job changes alone total between $60 billion and $105 billion each year.[xx]

Having access to a retirement plan and then choosing to invest in it is an obviously critical one-two punch, but only if those savings remain stashed away until retirement. The onus for rolling over 401(k) plans falls almost entirely on workers themselves, and that means many of them liquidate those accounts each time they change jobs, irrespective of any pressing financial needs. That leakage, needless or not, undermines overall savings and jeopardizes long-term security.

The retirement savings industry is fragmented, and that fragmentation results in workers' savings plans being scattered among a number of different financial institutions, with no centralized database to track or manage those savings. This is a significant and increasing problem; one study has found that almost 3 percent of retirees own an abandoned retirement account, and that percentage is increasing over time.[xxi] Industry leaders have sought for years to improve the portability of the system, but policy and business practices designed for other goals have created a system that no one leader can fix alone.

This problem is not just a technical problem for the retirement savings system—it also has disproportionate effects on savers of color. In particular, Black and Hispanic/Latino savers are more likely to own small accounts, which are most likely to be lost during working years.[xxii] Recognizing this problem, both the National Urban League and the National Association for the Advancement of Colored People (NAACP) recently endorsed auto-portability as an important step to closing the racial wealth gap.[xxiii]

In addition to policies that smooth the way for automatic portability in the retirement system, we also must help savers who have been harmed by the lack of portability in the system. One possibility is a retirement savings "Lost and Found" that savers who have lost track of their retirement account can search to find their account and plan administrator. Solutions like this, and others that reduce the burden on individuals to roll over their retirement savings and make retirement benefits truly portable, are vital to ensure the retirement savings system is designed for the needs of the 21st century workforce.

Innovation is Needed to Create Lifetime Income Streams in Retirement for All

Routinely positive cash flow is the foundation of financial stability and security. This is true both during the period of one's working life as well as in retirement. Social Security is the core of the monthly regular income stream for the majority of American retirees, but by most metrics Social Security replaces less than half of pre-retirement wages for the typical worker.[xxiv] Retirement savings can supplement Social Security to provide routinely positive cash flow.

Despite the need for cash flow in retirement, people can struggle to effectively make sense of all the factors that affect how they should use their savings in retirement. From having no idea about how much income their savings will produce to unknowable health care costs to a poor understanding of longevity expectations, most retirement savers do not know what lies ahead for them financially. Workers currently receive little guidance from employers or retirement-plan sponsors on the subject, and while that continues to be the case they will be at risk of making costly mistakes when they begin to draw on their savings during retirement.

Absent other direction, required minimum distributions (RMDs)—the base amount retirees have to take each year from their retirement plans once they reach age 72—have become the de facto determinant for how much to withdraw for some retirees. But RMDs were never intended to serve this function, and the fact that they have taken on that role in some cases highlights the need for more and better advice and tools.

Private sector leaders are busy now building new products and improving the information provided to those in or near the decumulation phase of retirement savings, supported by tools that policymakers have provided them in past legislation. However, it continues to be an issue that the committee should monitor, as more policy will undoubtedly be needed to address the cash flow needs of retirees in the future.

Emergency Savings is a Promising Solution to Protect Financial Security and Safeguard Retirement Savings

Finally, I want to raise a key opportunity for the committee to strengthen the retirement savings system and have it serve the greatest number of American workers successfully. That opportunity relates to supporting households in saving for emergencies. This tool is both essential to help people weather financial shocks and prevent them from needing to turn to retirement savings when emergencies occur. Policy and market innovation in the retirement savings system has taught us lessons about how to design emergency savings tools to help workers save more effectively and, in the long run, become more likely to participate in retirement savings.

In 2017 researchers at the Consumer Financial Protection Bureau (CFPB) found that having short-term, liquid savings to smooth volatile income and expenses or to cover unexpected financial emergencies was the single factor most highly correlated with household financial well-being.[xxv] A 2022 study by the

CFPB confirmed the importance of emergency savings, finding that households with emergency savings were substantially less likely to overdraft, take on high-interest debt, or withdraw early from their retirement savings.[xxvi] But a recent survey by the Bipartisan Policy Center found that 45% of Americans could not cover an unexpected $400 expense without borrowing or selling something.[xxvii]

Our research has found that emergency savings was a particularly important lifeline for families during the economic crisis caused by COVID-19, with 73% of Americans reporting a reduction in their income during 2020.[xxviii] A recent survey we conducted with Morningstar, the Defined Contribution Institutional Investment Association, and NORC at the University of Chicago found that families who had emergency savings before the pandemic were much better able to maintain their financial health than those who did not.[xxix] We also found that emergency savings were very effective in safeguarding against retirement withdrawals: households with at least $1,000 in emergency savings were half as likely to withdraw from their workplace retirement savings accounts.[xxx]

Unfortunately, existing emergency savings solutions do not meet the needs of millions of people, regardless of income. In part, this is because it is difficult for financial services providers to profitably offer low-balance savings accounts with frequent contributions and withdrawals. Additionally, as we have seen around the globe, human behavior can be a significant obstacle to saving. Retirement savings has been one of the most successful savings vehicles available to Americans, and its success is largely thanks to locating retirement savings at the workplace. This allows savings to be easily automated through payroll deduction when offered by an employer. Research has shown that making it easier to save when people have an influx of funds, such as a paycheck or when receiving a tax refund, is one of the most effective strategies to boost savings. Unfortunately, options like these are seldom available for emergency savings in the way they are for retirement savings.

Given the barriers to emergency savings for people up and down the income spectrum and reflecting on the success of payroll deduction retirement savings programs for those who have access to one, the workplace represents a high-potential platform for high-quality, low-cost, automatic emergency savings tools. Fortunately, employers have begun to take note of the deep need workers have for emergency savings. In 2019, 79% of employers in America reported that their employees were struggling financially, and 58% of employers were concerned that their employees were unprepared to meet unexpected financial challenges.[xxxi] Workers' financial challenges are both a household problem and a business problem: one study estimated that employees' financial stress could cost businesses up to $250 billion per year in reduced productivity.[xxxii] These trends, compounded by the financial crises faced by households during COVID-19, have sparked new employer interest in offering workplace emergency savings.

While access to workplace emergency savings remains low, some employers have begun to design and build products that provide these tools in the workplace. UPS, in collaboration with the national nonprofit Commonwealth and the Blackrock Emergency Savings Initiative, rolled out its emergency savings plan program for more than 90,000 workers in October 2020.[xxxiii] UPS allows workers to contribute both to their 401(k) and an emergency savings option within the account, using after-tax payroll deductions. Plan participants have full access to their emergency savings contributions and the ability to roll over earnings to their retirement accounts to avoid early withdrawal penalties.[xxxiv]

In addition to the benefit for employers, workers benefit from increased access to emergency savings. As the name suggests, households use emergency savings to pay for unexpected expenses, like a blown-out tire, a leaky roof, or a medical emergency. Emergency savings can also help households smooth consumption, especially when an income "dip" — increasingly common as income volatility continues to rise in America — means that a household will not have enough money to pay the bills.[xxxv] Even a small amount of emergency savings can help low- and moderate-income families weather a drop in income. Saverlife, a national nonprofit focused on helping families save, found that lower-income households with as little as $250 in savings were less likely to be evicted, delay paying bills, or turn to high-cost credit alternatives, such as payday loans.[xxxvi]

Your current work on retirement savings provides a unique opportunity to advance policies that will give people more tools to save for emergencies. Earlier this year we published principles for emergency savings policy with the AARP Public Policy Institute, the Bipartisan Policy Center, Commonwealth, and Saverlife to help provide you and your colleagues best practices for designing emergency savings policy:[xxxvii]

- Allow for automatic enrollment in workplace emergency savings
- Ensure emergency savings are their own "bucket" of savings
- Allow for a wide range of options, especially for low- and moderate-income households
- Design emergency savings to meet household needs
- Safeguard retirement savings

Of these principles, I want to highlight in particular allowing for automatic enrollment in workplace emergency savings. While a growing number of employers have started offering emergency savings accounts to their workers, participation is hampered by the inability to automatically enroll employees. For example, in a retirement-linked emergency savings program in the UK, while nearly 60% of employees at one employer believed that these savings accounts would benefit them, just over 1% of eligible employees signed up for the plan when not automatically enrolled.[xxxviii] Automatic enrollment in such plans would significantly boost participation of people who know those programs would help them, and easy opt out options would be available for those who do not wish to participate.

When automatic enrollment became a standard feature of 401(k) plans in the US, participation nearly doubled, with 93% of new hires contributing.[xxxix] Automatic enrollment also dramatically increased participation among younger, lower-income, and female employees. Automatic enrollment can help ensure equitable access and participation to emergency savings plans in the workforce.

This is a particular opportunity for your committee because the barriers to automatic enrollment in emergency savings that are linked to retirement plans ("sidecar" accounts)[xl] face the same barriers to automatic enrollment that retirement savings faced twenty years ago.[xli] Similar policies that allow for automatic enrollment in workplace emergency savings plans across the country would be essential to giving businesses the ability to offer high quality emergency savings plans to their employees.

The financial insecurity caused by COVID-19 and growing employer and worker demand for better emergency savings tools have made this an ideal time for action on emergency savings policy. The committee should not pass on the current opportunity to support bipartisan measures that provide important tools for households save for emergencies at the workplace, at tax time, or in other ways that meet the needs of households.

Conclusion: Retirement Savings is a Bipartisan Opportunity to Boost Financial Security

I want to thank you again and commend the committee for your leadership on the critical issue of retirement savings. Supporting retirement savers has long been a bipartisan bright spot in Congress, and I am grateful to you for carrying that tradition forward. I hope my testimony today has demonstrated the critical importance of retirement savings as a wealth building tool for households, highlighted the key opportunities we have to address gaps in the retirement savings system, and shown the unique opportunity you have before you to boost emergency savings to bolster financial stability and protect retirement savings.

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